

**CDA Recapture Tax Notice**  
**Maryland Mortgage Program (MMP)/ Maryland HomeCredit Program (MHCP)**

**Lender—Please give this top sheet to borrowers whose MMP mortgage or MMP mortgage with a Mortgage Credit Certificate will be purchased by CDA or its master servicer, US Bank. Please do not give this top sheet to borrowers applying for mortgage credit certificates if you intend to fund their loan from your own sources.**

Federal law provides for a possible Recapture Tax when some homeowners sell their home within the first nine years after receiving a mortgage financed by proceeds of tax-exempt bonds issued by CDA through its Maryland Mortgage Program (MMP) or assisted by CDA with mortgage credit certificates issued by CDA through its Maryland HomeCredit Program (MHCP). In order to alleviate the confusion and worry about having to pay a recapture tax when the home is sold, CDA agrees to reimburse any CDA homebuyer who settles on their home on or after July 1, 2005, the amount of any recapture tax that the CDA homebuyer pays in connection with the sale of the home, if the mortgage was financed by CDA with tax-exempt bonds issued through the MMP or by taxable financing arranged by CDA and assisted by mortgage credit certificates. However, CDA will not reimburse a non-CDA homebuyer who only receives an MCC through CDA.

CDA will not calculate the recapture amount. Upon sale or disposition of the residence, the borrower(s) must consult a personal tax advisor or the IRS.

In order to request a recapture tax reimbursement from CDA:

- The borrower(s) first must instruct the IRS, by using IRS Form 4506, to send to CDA a copy of each borrower's federal tax return covering the calendar year in which the residence was sold.
  - On Form 4506, instruct the IRS to send the information to:  
Maryland DHCD  
Attention: CDA Single Family - Recapture Tax Reimbursement  
7800 Harkins Road, 3<sup>rd</sup> Floor  
Lanham, MD 20706  
(301) 429-7852
- The borrower(s) must send a written request for reimbursement to CDA, by July 15<sup>th</sup> of the calendar year after the residence is sold, accompanied by the following:
  - a copy of the signed HUD-1 Settlement Statement from the sale or disposition of the property;
  - the address to which the reimbursement should be mailed; and,
  - any other documentation CDA may need to approve the reimbursement
  - Submit requests for reimbursement to:  
Maryland DHCD  
Attn: CDA Single Family - Recapture Tax Reimbursement  
7800 Harkins Road, 3<sup>rd</sup> Floor  
Lanham, MD 20706
- CDA will not act on the request for reimbursement until the copies of the borrower(s) tax returns are received from the IRS.

CDA will reimburse the Recapture Amount actually paid, but will not reimburse fees, interest, expenses or penalties incurred.

In order to comply with Federal tax reporting requirements, CDA will issue an IRS Form 1099 so the amount of any recapture tax that CDA reimburses to the borrower will be reported to the IRS as income.

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NOTICE TO BORROWER WITH INFORMATION FOR CALCULATING POTENTIAL RECAPTURE TAX begins on the next page.

## **NOTICE TO BORROWER WITH INFORMATION FOR CALCULATING POTENTIAL RECAPTURE TAX**

Because you are receiving a mortgage loan from the proceeds of a tax-exempt bond, you are receiving the benefit of a lower interest rate than is customarily charged on other mortgage loans; or because you are receiving a mortgage credit certificate with your mortgage loan, you are receiving the benefit of a credit against your federal income taxes. If you sell or otherwise dispose of your home during the next nine years, this benefit may be “recaptured.” The recapture is accomplished by an increase in your federal income tax for the year in which you sell your home. The recapture only applies, however, if you sell your home at a gain and if your income increases above specified levels. The recapture tax payment must be accompanied by a signed Internal Revenue Service Form 8828 (Recapture of Federal Mortgage Subsidy) which is to be attached to your Form 1040 for the year in which you sell your home. See the Form 1040 and Form 8828 Instructions.

You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time you sell your home to determine the amount, if any, of the recapture tax. Along with this notice, you are being given additional information that will be needed to calculate the recapture tax.

### **I. METHOD TO COMPUTE RECAPTURE TAX ON SALE OF HOME**

#### **A. Introduction.**

1. **General.** When you sell your home you may have to pay a recapture tax as calculated below. The recapture tax may also apply if you dispose of your home in some other way. Any references in this notice to the “sale” of your home also include other ways of disposing of your home. For instance, you may owe the recapture tax if you give your home to a relative.

2. **Exceptions.** In the following situations, no recapture tax is due and you do not need to do the calculations:

- a. You dispose of your home later than nine years after you close your mortgage loan;
- b. Your home is disposed of as a result of your death;
- c. You transfer your home either to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under section 1041 of the Internal Revenue Code;
- d. You dispose of your home at a loss; or.
- e. Your modified adjusted gross income at the time of the disposition does not exceed the adjusted qualifying income limit (increased by 5% per year as indicated in the following Tables). This rule is implemented by an “Income Percentage” calculation described below.

**B. Maximum Recapture Tax.** The maximum recapture tax that you may be required to pay as an addition to your federal income tax is an amount equal to 6.25% of (.0625 multiplied by) the highest principal amount of your mortgage loan, which generally is the amount of the mortgage loan on the date of settlement. This is your federally subsidized amount with respect to the loan.

C. **Actual Recapture Tax.** The actual recapture tax, if any, can only be determined when you sell your home, and is the lesser of: (1) 50% of your gain on the sale of your home, regardless of whether you have to include that gain in your income for federal income tax purposes; or (2) your recapture amount determined by multiplying the following three numbers.

1. The maximum recapture tax, as described in paragraph B above;
2. The holding period percentage, as listed in Column 1 in the Table found in Section II of this document; and
3. The income percentage, as described in paragraph D below.

D. **Income Percentage.** First locate the Table that applies to your loan and then calculate the income percentage as follows:

1. Subtract the adjusted qualifying income applicable in the taxable year in which you sell your home, as listed in Column 2 in the Table identified above, from your modified adjusted gross income in the taxable year in which you sell your home.

Your modified adjusted gross income means your adjusted gross income shown on your federal income tax return for the taxable year in which you sell your home, with the following adjustments: (a) your adjusted gross income must be increased by the amount of any interest that you receive or accrue in the taxable year from tax-exempt bonds that is excluded from your gross income (under section 103 of the Internal Revenue Code); and (b) your adjusted gross income must be decreased by the amount of any gain included in your gross income by reason of the sale of your home.

2. If the amount calculated in (1) above, is zero or less, you owe no recapture tax and do not need to make any more calculations. If it is \$5,000 or more, your income percentage is 100%. If it is greater than zero but less than \$5,000, it must be divided by \$5,000. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is \$1,000/\$5,000, your income percentage is 20%.

**II. TABLES OF ADJUSTED QUALIFYING INCOME**

**TABLE 1**

Targeted Jurisdictions Excluding Washington, D.C. HMFA

(Using State Median Income)

Allegany County; Anne Arundel County: Census Tract 7406.02; Baltimore City; Baltimore County: East Towson, Oella, West Catonsville, and Census Tracts 4009, 4011.02, 4013.02, 4023.05, 4207.01, 4210, 4211.01, 4213, 4301.01, 4303, 4505.03, 4505.04, 4513, 4523, 4906.05, and 4914.01; Caroline County; Dorchester County; Garrett County; Harford County: Census Tracts 3029.01 and 3065; Kent County; Somerset County; Washington County: the City of Hagerstown and Census Tracts 3.02, 4, 7, 8, and 9; and Wicomico County: Census Tracts 1, 3, 5, and 102.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	115,800*	135,100*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	121,590	141,855
On or after the second anniversary of closing but before the third anniversary of closing	60%	127,670	148,948
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	134,053	156,395
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	140,756	164,215
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	147,793	172,426
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	155,183	181,047
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	162,942	190,099
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	171,089	199,604

\*State median income of \$96,500 times 120% and 140%.

TABLE 2

Non-Targeted Jurisdictions Excluding Baltimore-Columbia-Towson MSA and Washington, D.C. HMFA

(Using State Median Income)

Cecil County; Talbot County; Washington County (excluding the City of Hagerstown and any portions of census tracts 3.02, 4, 7, 8, and 9); Wicomico County (excluding Census Tracts 1, 3, 5, and 102); and Worcester County.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	96,500*	110,975*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	101,325	116,524
On or after the second anniversary of closing but before the third anniversary of closing	60%	106,391	122,350
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	111,711	128,467
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	117,296	134,891
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	123,161	141,635
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	129,319	148,717
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	135,785	156,153
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	142,574	163,961

\*State median income of \$96,500 times 100% and 115%.

TABLE 3

Non-Targeted Jurisdictions Excluding Baltimore-Columbia-Towson MSA and Washington, D.C. HMFA

(Using Area Medium Income)

St. Mary’s County.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	103,400*	118,910*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	108,570	124,856
On or after the second anniversary of closing but before the third anniversary of closing	60%	113,999	131,098
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	119,698	137,653
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	125,683	144,536
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	131,968	151,763
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	138,566	159,351
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	145,494	167,318
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	152,769	175,684

\* Area median income of \$103,400 times 100% and 115%.

TABLE 4

Targeted Jurisdictions in Washington, DC HMFA

(Using HMFA Area Median Income)

Frederick County: Census Tracts 7503 and 7505.05; Montgomery County: Census Tracts 7007.24, 7014.22, 7016.01, and 7032.13; Prince George’s County: Brentwood, Capitol Heights, Colmar Manor, Fairmont Heights, Mount Rainier, North Brentwood, Seat Pleasant, and Census Tracts 8002.10, 8019.08, 8020.01, 8021.04, 8022.01, 8032, 8034.01, 8035.09, 8035.25, 8040.01, 8043, 8048.01, 8048.02, 8049, 8051.01, 8052.01, 8056.01, 8056.02, 8059.06, 8059.07, 8059.08, 8059.09, 8067.13.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	140,640*	164,080*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	147,672	172,284
On or after the second anniversary of closing but before the third anniversary of closing	60%	155,056	180,898
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	162,808	189,943
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	170,949	199,440
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	179,496	209,412
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	188,471	219,883
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	197,895	230,877
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	207,789	242,421

\* Washington, D.C. HMFA median income of \$117,200 times 120% and 140%.

TABLE 5

Non-Targeted Jurisdictions in Washington, D.C. HMFA

(Using High Housing Cost Area Adjustment)

Calvert County; Charles County; Frederick County (excluding Census Tracts 7503 and 7505.05); Montgomery County (excluding Census Tracts 7007.24, 7014.22, 7016.01, and 7032.13); Prince George’s County (excluding Brentwood, Capitol Heights, Colmar Manor, Fairmont Heights, Mount Rainier, North Brentwood, Seat Pleasant, and Census Tracts 8002.10, 8019.08, 8020.01, 8021.04, 8022.01, 8032, 8034.01, 8035.09, 8035.25, 8040.01, 8043, 8048.01, 8048.02, 8049, 8051.01, 8052.01, 8056.01, 8056.02, 8059.06, 8059.07, 8059.08, 8059.09, and 8067.13).

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	140,640*	164,080*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	147,672	172,284
On or after the second anniversary of closing but before the third anniversary of closing	60%	155,056	180,898
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	162,808	189,943
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	170,949	199,440
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	179,496	209,412
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	188,471	219,883
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	197,895	230,877
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	207,789	242,421

\* Washington, D.C. HMFA median income of \$117,200 times 120% and 140%.



TABLE 6

Non-Targeted Jurisdictions in Baltimore-Columbia-Towson MSA

(Using High Housing Cost Area Adjustment)

Anne Arundel County (excluding Census Tract 7406.02); Baltimore County (excluding East Towson, Oella, West Catonsville, and Census Tracts 4009, 4011.02, 4013.02, 4023.05, 4207.01, 4210, 4211.01, 4213, 4301.01, 4303, 4505.03, 4505.04, 4513, 4523, 4906.05, 4914.01); Carroll County; Harford County (excluding Census Tracts 3029.01 and 3065); Howard County; Queen Anne’s County.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	112,641*	129,537*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	118,273	136,014
On or after the second anniversary of closing but before the third anniversary of closing	60%	124,186	142,814
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	130,396	149,955
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	136,916	157,453
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	143,761	165,326
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	150,949	173,592
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	158,497	182,271
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	166,422	191,385

\*Baltimore-Columbia-Towson MSA median income of \$94,900 times 118.6942% and 136.4983%.

**III. LIMITATIONS AND SPECIAL RULES ON RECAPTURE TAX**

A. If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you had sold your home for its fair market value.

B. If your home is destroyed by fire, storm, flood, or other casualty, there generally is no recapture tax if within two years you purchase additional property for use as your principal residence on the site of the home financed with your original subsidized mortgage loan.

C. In general, except as provided in future regulations, if two or more persons own a home and are jointly liable for the subsidized mortgage loan, the actual recapture tax is determined separately for them based on their interests in the loan.

D. If you repay your loan in full during the nine year recapture period and you sell your home during this period, your holding period percentage may be reduced under the special rule in section 143(m)(4)(C)(ii) of the Internal Revenue Code.

E. Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor or the local office of the Internal Revenue Service when you sell or otherwise dispose of your home to determine the amount, if any, of your actual recapture tax. See section 143(m) of the Internal Revenue Code generally.

Received and acknowledged this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Borrower

\_\_\_\_\_  
Borrower